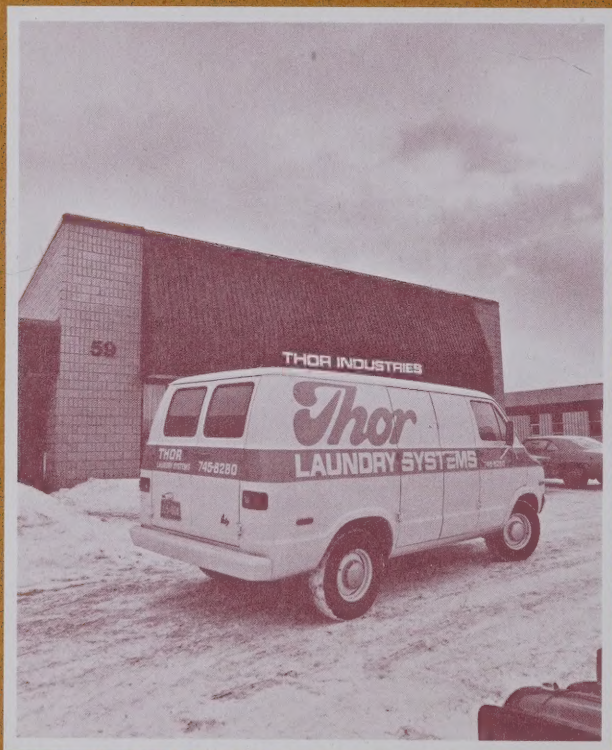
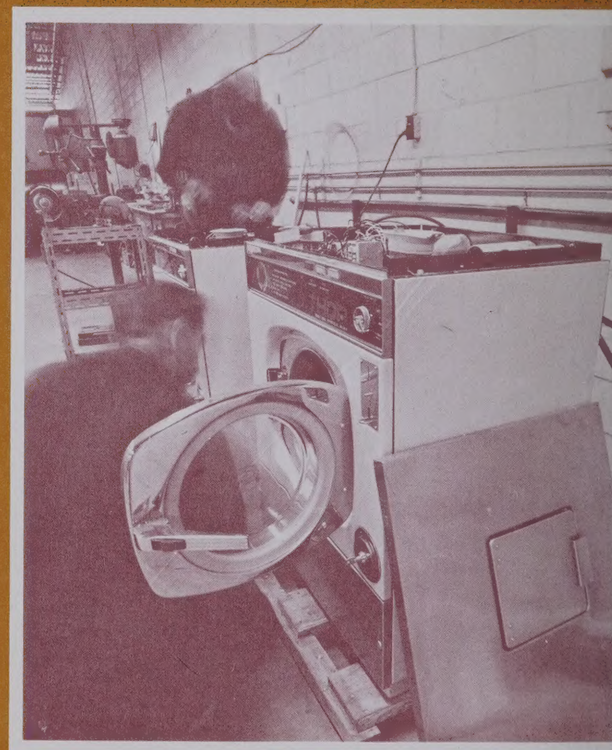
Arbor Capital Resources Inc.

ANNUAL REPORT 1975





The service centre for Thor's Toronto operations.

Directors' report

To our Shareholders

FINANCIAL RESULTS

Net earnings before extraordinary items for the year ended October 31, 1975 were $79,917 (3 cents per share). The corresponding figure for the previous fiscal year was $302,393 (10 cents per share).

Contributing most to this result was a decline in the sales of our two operating divisions. The markets for both Memorial Gardens and Thor were depressed by a general economic uncertainty. This condition was aggravated for Memorial Gardens by our decision to restrain pre-need sales of vaults and interment services which cannot be delivered in advance of need and are thus incompatible with our goal of emphasizing sales for current delivery. Thor's coin-operated business was affected by a decline in construction of apartments by the private sector. Equipment sales by Thor were less than predicted as customers, anticipating price increases from our supplier, increased their purchases from competitors in the transition period before Thor became Wascomat's exclusive distributor for Eastern Canada.

The effect of reduced sales was offset partly by more effective cost control and by improved investment income. The aggregate gross yield from investments was increased by approximately 10% without any marked increase in average term to maturity. During the year, we substantially completed the program for disposal of inferior securities, mostly straight preferred shares, which was started in 1974. The accumulated net loss on disposal amounting to $415,172 had all been provided for in prior years.

Three transactions accounted for most of a $280,901 net loss from extraordinary items. First, provision was made for the possible loss of the $493,416 advanced to the Chibex venture as operations at the mine are judged to be not

profitable with existing equipment and at current prices for gold and copper. Secondly, part of the provision for future performance of memorial maintenance, amounting to $244,689 net of income taxes, was taken into income as the obligation associated with this amount has been performed. Thirdly, there was a final loss of $61,693 on disposal of assets at the Anglo-Rouyn mine. All activities at this property have ceased and the site was vacated in November, 1975.

HIGHLIGHTS

MEMORIAL GARDENS

The organization was revised to separate marketing from cemetery operations and thus secure a better balance of management effort between these functions. In addition, more emphasis was given to quality and cost control at the branches and the first steps were taken to integrate marketing activities in those major cities where we operate more than one branch.

Last year we began implementation of a program to deliver some products sold under pre-need contracts rather than provide by funding for their future delivery. This program, which will eventually diminish fluctuations in operating costs caused by changing predictions of inflation rates, now applies to most current pre-need sales.

The systems and procedures of Memorial Gardens are inherently complicated because they must meet the detailed and varying information needs associated with 20,000 active instalment accounts, more than 170,000 items to be delivered in the future, 33 branches and numerous governmental authorities. Much effort is being spent to make these arrangements more efficient. During the year, several improvements were achieved including reductions of delays in issuing instalment billings and transmitting collections from the branches, analysis and submission of a large volume of historical trust transactions for periodic review by regulatory authorities, and elimination of 8 subsidiary companies by a series of combinations.

The division maintains an active search for additional cemetery lands in the provinces of Quebec and Ontario. Just after the end of the fiscal year, we made an offer to purchase an existing cemetery of some 45 acres in the vicinity of Montreal. The offer has been accepted but, at the time of writing, not all the conditions precedent to closing had been satisfied.

THOR

The leading event of 1975 was a revision of supply arrangements so that products would more closely match market requirements, profit margins could be better maintained and dependence on remote sources would be reduced. Two of these changes were most important. First, arrangements were made for Thor to distribute in Ontario the well known Inglis line of coin-operated equipment. Secondly, Thor was appointed exclusive distributor in Eastern Canada for the Wascomat line of heavy duty equipment for commercial and institutional applications. The long term benefits of these changes will outweigh the immediate costs for such items as revising technical literature, professional services, tools and training of staff.

In the summer of 1975, Thor opened an office in Montreal as the first step in expanding direct operations across Eastern Canada. It is anticipated that this segment of the division will start to make a contribution to profits during 1976.

MINING

Production at the Chibex mine was stopped in October, 1975, after the operator, Valley Mining Corporation, determined that profitable operations could not be achieved without extensive modifications to the mill and an increase in

To our Shareholders

the price of gold to about the levels prevailing in the spring of 1975. In these circumstances, your directors have provided for the possible loss of our investment in this venture. At the time of writing, the mine is being placed on a maintenance basis and Valley Mining Corporation has informed us that its interest in the property has been optioned to two Canadian mining companies. After considering independent evaluations of the potential of the mine, your directors intend to make such reasonable commitment as is needed to maintain our interest.

OUTLOOK

The workings of the Anti-Inflation Act may well be the chief determinant of our progress in the next few years. Arbor is not within the jurisdiction of the Act but most of the provincial authorities which regulate our dominant division, Memorial Gardens, have advised us that they intend to follow the Act. At this time, we see no reason to be discouraged by this development.

Arbor supports the underlying goals of the Act and will, in any event, comply voluntarily with our understanding of it.

Further, it seems reasonable to expect that this legislation will lead to a fuller understanding of the criteria which are appropriate to pricing cemetery products. In Canada, selling prices for cemetery products are generally subject to approval by provincial authorities. In the past, however, proposed price changes have been assessed more in the light of historical trends and relationships among neighbouring cemeteries than by reference to the price levels required to maintain acceptable service in the long term. The consequence is that, for certain of our products, approved prices are now below our costs.

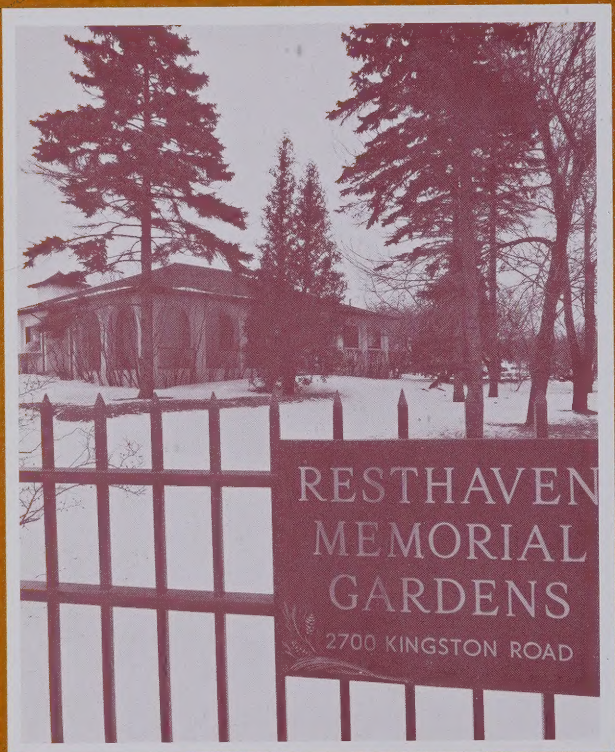
The anti-inflation legislation should at least provide a framework and an incentive for thorough study of the causes and justifications for situations of this kind.

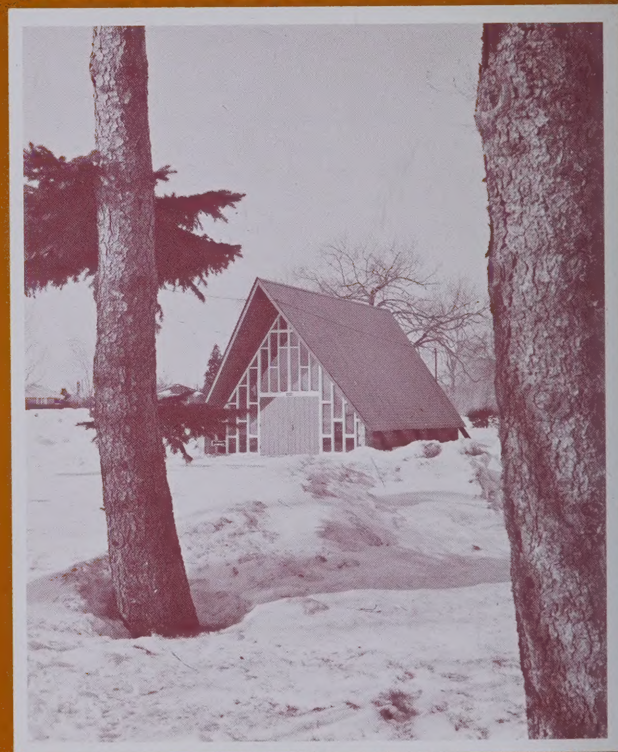
ACKNOWLEDGEMENTS

Arbor was served well in 1975 by dedicated and capable people across Canada. Your directors record their thanks to all those who contributed by doing their best in difficult times; the family counsellor or sales representative who demonstrated that the customer's interests come first, the office worker who was always accurate, the grounds worker who put performance ahead of personal comfort and the service mechanic who was meticulous.

On behalf of the Board of Directors

Philip L. Wilson
President





The Resthaven office is a Scarborough landmark dating from circa 1870. The chapel was designed by the Memorial Gardens' Engineering Department.

ARBOR CAPITAL RESOURCES INC.
AND SUBSIDIARY COMPANIES

Consolidated statement of earnings

	Year ended October 31 1975	1974
SALES	$ 9,311,416	$10,005,064
INVESTMENT INCOME		
Pre-need funds	823,141	701,717
Perpetual care funds	629,531	553,682
	10,764,088	11,260,463
OPERATING COSTS AND OTHER EXPENSES	10,697,319	10,422,417
	66,769	838,046
NET GAIN (LOSS) ON INVESTMENTS (note 4)	29,748	(169,653)
	96,517	668,393
PROVISION FOR INCOME TAXES		
Current	22,600	104,000
Deferred	(6,000)	262,000
	16,600	366,000
NET EARNINGS FOR THE YEAR BEFORE EXTRAORDINARY ITEMS	79,917	302,393
EXTRAORDINARY ITEMS		
Gain on sale of land	29,518	174,136
Gain (loss) on sale of mining equipment	(61,693)	113,988
Reduction of income taxes on application of prior years' losses	—	22,500
Provision for loss on advances to mining venture (note 8)	(493,415)	—
Adjustment of provision for future delivery (note 7)	244,689	—
	(280,901)	310,624
NET EARNINGS (LOSS) FOR THE YEAR	$ (200,984)	$ 613,017
EARNINGS PER SHARE		
Net earnings before extraordinary items	$ 0.03	$ 0.10
NET EARNINGS (LOSS)	$ (0.07)	$ 0.20

Consolidated balance sheet

	As at October 31 1975	1974
ASSETS		
Cash	$ 23,978	$ 190,515
Accounts receivable (note 3)	689,447	664,658
Inventories — at the lower of cost or net realizable value	542,673	348,506
Prepaid and deferred expenses	70,996	153,813
Accounts receivable instalment (notes 2 and 3)	8,197,924	7,392,691
Advances to mining venture less provision for loss (note 8)	1	—
Pre-need funds (note 4)	9,857,193	9,406,776
Cemetery land (note 2)	3,297,623	3,374,072
Fixed assets — at cost, less accumulated depreciation of $1,556,786 (1974 — $1,389,304)	1,412,855	1,275,966
Leasehold interests — at cost, less accumulated amortization of $173,970 (1974 — $135,270)	599,671	638,372
Goodwill — at cost	2,149,531	2,149,531
	$26,841,892	$25,594,900

PERPETUAL C

Investments held by trustees — at cost	$ 8,793,444	$ 8,216,896

Signed on behalf of the Board

Murray M. Sinclair *Director*

Philip L. Wilson *Director*

	As at October 31 1975	1974
LIABILITIES		
Bank indebtedness (note 3)	$ 637,920	$ 75,000
Accounts payable and accrued liabilities	1,348,676	1,213,462
Income taxes payable	1,219	15,378
Pre-need funds (note 2)	314,168	258,854
Perpetual care funds (note 2)	707,486	684,804
Provision for future delivery (note 7)	12,150,755	11,525,497
Deferred revenue (note 2)	930,310	898,771
Long-term debt (note 6)	1,137,598	1,214,864
Deferred income taxes (note 2)	3,687,235	3,580,761
	20,915,367	19,467,391
SHAREHOLDERS' EQUITY		
Share capital —		
Authorized: 10,000,000 shares without par value		
Issued and fully paid: 3,086,897 shares without par value (note 9)	1,075,474	1,075,474
Retained earnings	4,851,051	5,052,035
	5,926,525	6,127,509
	$26,841,892	$25,594,900

UNDS (note 5)

Perpetual care fund balances	$ 8,793,444	$ 8,216,896

Consolidated statement of changes in financial position

	Year ended October 31 1975	1974
SOURCE OF CASH		
Net earnings for the year before extraordinary items	$ 79,917	$ 302,393
Items not affecting funds		
Depreciation and amortization	393,592	377,996
Increase in provision for future delivery	869,947	1,297,933
Deferred income taxes	106,474	262,000
Provided from operations	1,449,930	2,240,322
Sale of land	33,846	187,873
Sale of equipment	—	155,001
Increase in perpetual care and pre-need funds	77,996	67,195
Increase in bank indebtedness	562,920	—
Increase in deferred revenue	31,539	277,466
Increase in long-term debt	—	66,568
	2,156,231	2,994,425
USE OF CASH		
Increase in instalment accounts receivable	805,233	1,806,768
Development costs and additions to cemetery land	25,238	120,446
Purchase of fixed assets	394,421	360,161
Increase in pre-need funds	450,418	288,931
Decrease in bank indebtedness	—	203,147
Decrease in long-term debt	77,266	—
Advances to mining venture	493,416	—
Other	76,776	74,844
	2,322,768	2,854,297
INCREASE (DECREASE) IN CASH	(166,537)	140,128
CASH – BEGINNING OF YEAR	190,515	50,387
CASH – END OF YEAR	$ 23,978	$ 190,515

ARBOR CAPITAL RESOURCES INC.
AND SUBSIDIARY COMPANIES

Consolidated statement of retained earnings

	Year ended October 31 1975	1974
RETAINED EARNINGS — BEGINNING OF YEAR	$ 5,145,525	$ 4,555,008
Adjustment of prior years' service charge income	(93,490)	(93,490)
As restated	5,052,035	4,461,518
Net earnings (loss) for the year	(200,984)	613,017
	4,851,051	5,074,535
Taxes arising on reorganization of subsidiary companies	—	22,500
RETAINED EARNINGS — END OF YEAR	$ 4,851,051	$ 5,052,035

Auditors' report to the shareholders

We have examined the consolidated balance sheet of Arbor Capital Resources Inc. and subsidiary companies as at October 31, 1975 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at October 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

Chartered Accountants

Toronto, Ontario,
February 3, 1976

Notes to consolidated financial statements

FOR THE YEAR ENDED OCTOBER 31, 1975

1. CHANGE OF NAME

On April 2, 1975, the company changed its name from Canadian Memorial Services Limited to Arbor Capital Resources Inc.

2. ACCOUNTING POLICIES

(a) PRINCIPLES OF CONSOLIDATION
The accounts of the company and all of its subsidiaries have been included in the consolidated financial statements.

(b) INSTALMENT ACCOUNTS RECEIVABLE, PRE-NEED AND PERPETUAL CARE FUNDS
The company follows the practice of recording profit on instalment contract sales, provision for future delivery of merchandise and services and the related amounts payable to perpetual care and pre-need funds at the time of sale. Instalment accounts receivable and the related pre-need and perpetual care amounts are payable over periods which average approximately five years.

(c) CEMETERY LAND
The company charges to cemetery land the cost of raw land and development. As lots are sold, the cost of the developed lots is charged to operations. In 1975 this amounted to $97,359 (1974 — $105,573).

(d) DEPRECIATION AND AMORTIZATION
Depreciation of fixed assets and amortization of leasehold improvements are provided for in the accounts at rates allowed for income tax purposes.

Leasehold interests are amortized over a period of twenty years on a straight-line basis.

Depreciation and amortization included in operating costs and other expenses amount to $296,233 (1974 — $272,423).

(e) PROVISION FOR FUTURE DELIVERY
The company has sold merchandise and services, such as bronze markers, vaults, interments and funeral services on a pre-need basis. The average period from the balance sheet date to time of delivery is approximately seventeen years. The provision for future delivery is based on a calculation made by a firm of consulting actuaries and represents the cost of the merchandise and services, allowing for inflation to the estimated time of delivery, discounted at an appropriate interest rate.

(f) DEFERRED REVENUE
Service charges are applied on the uncollected balances of contracts for the sale of lots and merchandise and are payable over periods averaging approximately five years. The company follows the practice of recognizing service charge revenue over the life of the sales contract by the sum of the digits method.

(g) INCOME TAXES
Deferred income taxes arise principally from the following:
(i) Claiming a reserve for undelivered merchandise and services.
(ii) Claiming development cost of cemetery land for income tax purposes as incurred, whereas such costs have been deferred in the accounts.
(iii) Claiming a reserve for income tax purposes against instalment accounts receivable.

The company and certain subsidiaries have losses available for application against future years' income.

3. BANK INDEBTEDNESS
Accounts receivable and instalment accounts receivable have been pledged as security for the bank indebtedness.

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4. PRE-NEED FUNDS

The company has set aside the following amounts to meet statutory and contractual obligations to pay for merchandise and services to be delivered in the future:

	October 31	
	1975	1974
Statutory	$7,908,235	$7,525,005
Contractual	2,460,260	2,424,271
	10,368,495	9,949,276
Accumulated net losses on sales of investments	(415,172)	—
Total pre-need funds — at cost	$9,953,323	$9,949,276
These funds are made up as follows:		
Cash and short-term deposits	$1,429,057	$1,529,077
Bonds (quoted market value $3,995,941; 1974 — $2,597,432)	4,274,008	2,788,514
Stocks (quoted market value $617,169; 1974 — $1,189,289)	999,761	2,149,275
Mortgages	3,250,497	3,482,410
Total funds set aside — at cost	9,953,323	9,949,276
Provision for losses	(96,130)	(542,500)
Total pre-need funds — at cost less provision	$9,857,193	$9,406,776

The investments included in the funds are valued at cost, less a provision for losses in respect of individual investments where a decline in market value below cost has occurred and appears to be permanent. The net gain resulting from profits and losses on sales of investments and from the change in the provision for losses for the year ended October 31, 1975 was $29,748 (1974 — net loss $169,653).

Pre-need funds become available when the merchandise and services have been provided.

5. PERPETUAL CARE FUNDS

The companies have the right to the income from these funds for the care and maintenance of cemetery properties but the assets of the funds are not assets of the companies.

6. LONG-TERM DEBT

	1975	1974
6% notes payable in annual instalments of $50,000 on December 31, 1975 to 1981 inclusive and the balance of $550,000 on December 31, 1982	$ 900,000	$ 950,000
9% mortgage payable in annual instalments of $6,000 through 1978 and one instalment of $118,296 in 1979	136,296	142,296
9¼% mortgage payable in monthly instalments of $200 (principal and interest) to 1978 and one instalment of $7,169	11,302	12,568
Note payable due December 31, 1975 with interest at bank prime rate plus 1½%	90,000	110,000
	$1,137,598	$1,214,864
Amounts payable within one year	$ 147,386	$ 57,266
Interest on long-term debt included in operating costs and other expenses	$ 80,115	$ 64,719

Notes

7. ADJUSTMENT OF PROVISION FOR FUTURE DELIVERY
During the year it was determined that the amount of the provision for future delivery of memorial maintenance had been established in prior years on a basis which is now inappropriate. The adjustment of the provision in 1975 in the amount of $415,689 net of the applicable deferred income taxes has been accounted for as an extraordinary item.

8. PROVISION FOR LOSS ON ADVANCES TO MINING VENTURE
During the year advances of $493,416 were made to a mining venture and it is not certain that these will be recovered. Accordingly, a provision for loss has been made, as an extraordinary item, to reduce the advances to a nominal value.

9. SHARE OPTIONS
Options have been granted to certain officers to purchase 140,000 shares at $1.00 per share. These options are exercisable at various dates and expire on December 31, 1979.

10. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS
The aggregate direct remuneration paid or payable by the company and its subsidiaries to its directors and senior officers as defined by The Business Corporations Act was $200,099 for the year ended October 31, 1975 (1974 — $235,554).

11. ANTI-INFLATION ACT
The company is subject to restraint in the payment of corporate dividends under the terms of the Anti-Inflation Act and Regulations which became effective October 14, 1975.

12. COMPARATIVE FIGURES
Certain 1974 comparative figures have been reclassified to conform with the 1975 presentation.

DIRECTORS

Frank Anthony*; *Real estate investor*

D. G. C. Menzel, Q.C.; *Partner of Campbell, Godfrey & Lewtas and Director of other Canadian companies*

Daniel J. Scanlan, *Executive Vice-President of Arbor Capital Resources Inc.*

The Right Honourable Lord Shaughnessy*; *Vice-President and Secretary of Canada Northwest Land Limited and a Trustee of The Last Post Fund Inc.*

Murray M. Sinclair*; *Chairman of the Board of Arbor Capital Resources Inc., and private investor*

Philip L. Wilson; *President and Chief Executive Officer of Arbor Capital Resources Inc.*

*Member, Audit Committee

OFFICERS AND SENIOR MANAGEMENT

CORPORATE

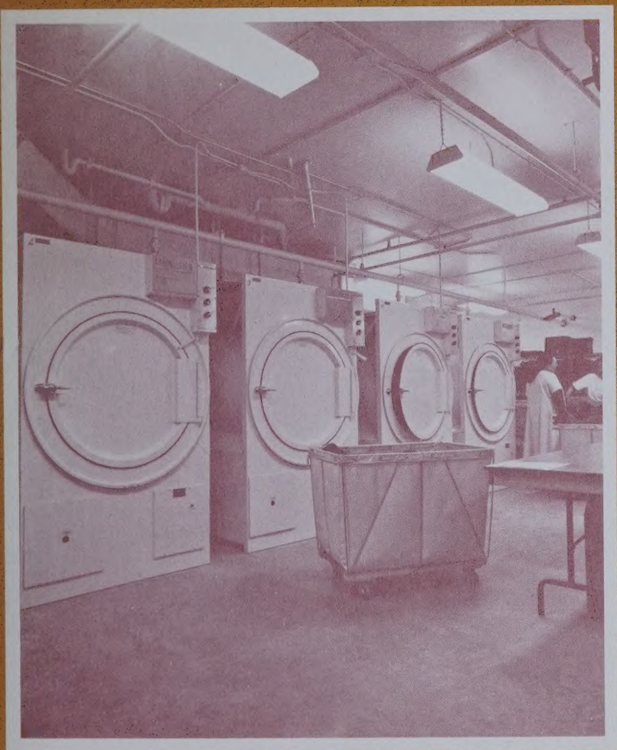
Murray M. Sinclair, *Chairman*
Philip L. Wilson, *President*
Daniel J. Scanlan, *Executive Vice-President*
H. W. Suters, *Executive Vice-President*
Barry G. Jones, C.A., *Vice-President Finance and Treasurer*
John W. Sabine, *Secretary*

MEMORIAL GARDENS DIVISION

Daniel J. Scanlan, *Vice-President*
Donald R. Belyea, *Director of Engineering*
W. Keith Forbes, *Manager, Administrative Controls*
Bernard E. Francisco, *Controller*
Joseph E. Johnson, *Director of Operations*
Patrick Monkman, *Manager of Properties*
John V. Palmer, *Director of Marketing*

THOR DIVISION

H. W. Suters, *Managing Director*
Alan K. Cox, *Director of Business Development*
Anthony Foster, *Executive Vice-President*
Charles M. Hughes, *Controller*
William Nicol, *Operations Manager*



A typical installation by Thor at
Delta's Chelsea Inn.

Arbor Capital Resources Inc.

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